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## THE RELATIONS OF SHIPPER AND CARRIER

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THE problem of railroad regulation and rehabilitation possesses this characteristic—not unusual in problems of an economic character—that from whatever angle one approaches it, one is drawn inevitably into the discussion of its every phase. So closely associated and interdependent are all the interests involved that it is almost impossible to consider one phase without taking into account all the others. The railroad problem from the standpoint of the shipper is in the last analysis, the same problem from the standpoint of the public, and hence what I shall say this morning may appear to wander somewhat widely from the specific topic set for discussion. I take it that the general topic has in mind problems of service and of rates as applied to the mass of commodities transported for the public. It is the problem of freight service. What I propose to do as an opening for the morning's discussion is to state what in my judgment are the outstanding considerations in the relation of the shipping public to the transportation agencies.

In any attempt to solve the present railroad problem, we shall have to take account, among other factors, of two more or less conflicting interests that must be protected and harmonized,—private capital that owns the machine and is assuming responsibility for its operation, and the shippers who are using this machine for the transportation of their freight. What may each require of the other? I am assuming that one of these two interests will be the private railroad corporations rather than the government, because I have been able to discover little evidence of a desire in this country at present for railroad nationalization. Notwithstanding the very evident growth of liberalism and even of radicalism in this country, the activity of socialistic writers and speakers, the intensive campaign of the railroad brotherhoods, there is scarcely a remote possibility that Congress, representing the people, will give a moment's serious consideration at the present time to government ownership and operation. The question of government versus private ownership and operation is

not one of principle, but one of expediency merely. The public should entrust the performance of its transportation service to that agency, whether public or private, that will best perform it. And it is because so large a proportion of the public to-day believes that private capital can give this service more efficiently than can the government, that the agitation for government ownership has made so little headway. I think we may safely proceed in our discussion upon the assumption that private capital is to be given another opportunity to show what it can do to furnish this country with efficient transportation.

Looking at the question, then, first from the standpoint of the shipper, what may he reasonably require of the railroad transportation system,—not of an individual railroad company, for that is not my point of view, but of the aggregate of railroad corporations that stand prepared to handle his freight? What the shipper requires may all be summed up in the one word *service*. Frequently this demand is embodied in the words, efficient service at reasonable rates, but I have intentionally omitted this latter requirement because I question whether by and large the shippers are seriously concerned as to whether the rate structure as a whole is high or low. There was a time earlier in our history when our transportation facilities were not as generous or as flexible as they are now, and when discriminations between large and small shippers were more common. In those days, the shipper felt more directly the burden of the rate, and found it more difficult, if not altogether impossible, to shift it to other shoulders. To-day I venture the generalization that in the large proportion of instances, the burden of the rate is passed on to the consumer, and disappears in price, where it is lost from view forever. What we are more apt to hear to-day, especially from organized bodies of shippers, is the argument for adequate rates. This demand, which has become more articulate during the last few years, is based partly upon a realization by the shippers that this is the only way to get the service they require, and partly upon a consciousness that this adequacy, when obtained, will not seriously deplete their own pocket-books. Where the shippers' interest in rates does appear is in such matters as the equalization of burden upon different commodities, and the equalization of market opportunities for different producing sections and manufacturing centers,—in other words, in the relativity of rates.

If service is the one thing the shipper requires, let us attempt

to analyze it into its most important elements. The first and immediate need, which in a way comprehends all the others, is for a greater unification of the facilities of transportation on the one hand, and on the other hand, a greater unity in the agencies that regulate the operation of these facilities and the charges imposed. Such unification is necessary in order that the rate structure may be simplified and standardized, and the inequalities and the injustices eliminated, that spring from the mass of tariffs filed by hundreds of railroad corporations and passed upon by over two score of regulating commissions. That great progress has been made toward fairer relations, no one can deny who has followed the history of regulation in this country for the past two decades, but the problem is far from having reached the stage of complete solution. The conflict of state and federal jurisdiction in the matter of rates is a serious hindrance to the accomplishment of the desired end. My own feeling is that exclusive jurisdiction in rate matters should be entrusted to the federal commission. We have had sufficient illustration of the ability of the state commissions, when they wish, to throw an interstate schedule completely out of line. Such action on their part may be of immediate advantage to a local industry or two, but for the body of shippers of the country as a whole, such a policy is unfair and burdensome. Leaving the regulation of intra-state rates exclusively to state commissions does not solve the problem for there are few such rates that do not in these days have their interstate implications. Conferences between state and federal commissions may act as a palliative, but such conferences are not likely to take place until the trouble has reached an acute stage. Efficiency in service demands a smooth running machine all the time, and this can only be attained through unified regulation in the hands of a central body.

Equitableness in rates requires again that not only shall regulation be centralized, but that the units of transportation shall be reduced in number, and thrown into larger systems. How many systems there shall be or of what their constituent elements shall consist, I do not here undertake to say, but would merely express the view that they should follow well-established lines of traffic and should be guided in their construction by commercial rather than geographical considerations. A regional grouping would have no economic justification. I do not care to enter here into the legal difficulties associated with the actual processes of con-

solidation, nor to discuss the relative desirability of voluntary and compulsory consolidation, beyond venturing the opinion that voluntary consolidation would not succeed, and that sooner or later compulsion would have to be resorted to if the end were to be attained. Such consolidations along commercial lines would result in eliminating as independent factors the so-called weak roads, by absorbing them into systems with their more prosperous competitors. There would thus be removed much of the economic waste of roundabout hauls, much of the instability in rate structures, much of the inequality in transportation charges as between different commodities and different lengths of haul. The principle of rate-making which declares that in an industry with a large fixed plant any earnings on traffic over and above the out-of-pocket expenses of the haul justify the rate, is sound if properly applied, but it has been carried so far in many instances that it has resulted in enormous waste, and the American public has paid in transportation charges for millions of miles of unnecessary and unjustifiable haulage. The shipping public has a right to demand that so far as it is humanly possible, this wastage should cease, and there is no better time to take the evil vigorously in hand than now, when the whole transportation problem is being studied with an earnestness and a sincerity never before displayed in our history. Consolidation should be effected in such manner as to create large systems covering well-defined traffic routes, and designed to handle the business of the country in the most direct manner, unobstructed by the selfish requirements of any individual railroad system. I do not personally think that competition should be eliminated. There may come a time when such competition will no longer be of importance; but with adequate oversight to prevent misuse of the competitive privilege, I see no reason why we cannot anticipate that competition between these consolidated systems will work to raise steadily the standard of service offered and thus accrue to the advantage of the public at large. The oversight to which I refer would consist in giving to the Federal Commission powers sufficient in addition to what it now possesses over rates and service, to ensure the most complete and most economical utilization possible of road, equipment and terminals without regard to private corporate ownership. Whatever has been accomplished during the period of unified government operation in the direction of joint use of terminals, direct routing, elimination of unneces-

sary switching, and the like should constitute a starting-point for a program of extensive amelioration. The very serious physical problem of joint terminals in the populous centers of the country should be tackled with the aid of the best engineering talent, and the pressure of public opinion should be brought to bear upon municipalities where such terminal problems exist, to seek an early solution. For the problem is in no sense a local one. The situation in St. Louis or Chicago or Kansas City is a vital one for every shipper and every consumer in the country.

Among the added powers that should be conferred upon the Federal Commission is the power to prescribe minimum rates. It is vital to the solution of the entire problem of relativity that a railroad corporation should be prevented from demoralizing the rate structure by a policy of rate reductions, which while temporarily bolstering up its own earnings and benefiting its local shippers, is causing the country at large an economic loss by throwing the burden on other traffic and by depriving routes better located of the opportunity of handling the business. Shippers have come to realize, if the general public has not, that specific rates may be too low as well as too high.

But more than this, in order that the shippers and the public may realize to the full the benefits of an adequate system of transportation, shippers should demand that greater utilization be made of our agencies of transportation other than rail,—particularly the facilities offered by our natural waterways. For the realization of this end, it is necessary that there be constructed such connections between water and rail systems and such facilities of transfer, as will remove existing obstructions. This policy should be urged wherever water carriage is economically justifiable. The public should not allow its waterways to remain idle unless it has satisfied itself by expert investigation that its best interests require an abandonment of water transportation and a concentration upon rail. Certainly it should not sit idly by and lose the use of its waterways merely because the physical connections with rail have not been perfected.

Turning to the other side of the question, what have the railroad corporations in their turn a right to require of the public? This can be stated in a sentence, although it would require far more time than I have at my disposal to discuss the statement in all its implications. Private capital invested in railroads has a right to require a return on its investment in the property devoted

to the public service that shall be sufficient (1) to cover costs of operation efficiently expended, together with taxes and other public obligations; (2) to cover the interest on obligations the proceeds of which have actually been invested in the property; (3) to cover a dividend upon an honest stock capitalization at a rate high enough to ensure that the capital needed for development can be obtained, which means not alone enough to pay the dividend in any one year, but in addition the accumulation of sufficient reserve to satisfy the public that its dividends will be continuous; and (4) to accumulate a surplus sufficient to keep its property up to the standard of service demanded by the public, such surplus to remain uncanceled.

Of course this statement opens up a wide field of controversy, involving questions as to the validity of the railroads' property accounts, the status of federal valuation and its usefulness when completed, the fundamental question as to what constitutes the value upon which the railroads are entitled to earn, the extent of existing capitalization, and the like. We can only hope that out of the arguments and disagreements of the experts, and the decisions of commissions and courts, some agreement may eventually emerge on fundamental conceptions of value and capitalization and rate of return that will supplant our present haphazard methods of rate determination. I cannot discuss these questions here, but can only say that there seems to me to be no insuperable obstacle to reaching a reasonable degree of approximation as to the value of the property upon which the railroads are entitled to earn, a value that can be adjusted and modified later in the light of more complete data and more thoroughly established principles. We must make a start sometime; most of our difficulties are due to the fact that we have dallied so long.

With the purpose of restoring railroad credit and of insuring to railroads an adequate return upon their investment, two proposals have been made, both of which offer strong claims for enactment into law. To insure an adequate return to capital invested in the industry, it is proposed that Congress should adopt a rule of rate-making as a guide to the Interstate Commerce Commission, the object of which being to make clear that the discretion of the Commission in making rates goes beyond a narrow consideration of the reasonableness of the specific rates under review, and embraces an examination and consideration of the general financial condition of the carrier, to the end that it may

be assured earnings adequate for the service needed by the public. Instead of being confined to the function of guardian of the shipper against the imposition of an unreasonable rate, the Commission is to become the protector and promoter of transportation service as a whole. It would clarify the powers of the Commission, remove all doubt as to the limits of its authority,—a doubt that has revealed itself more than once in divided counsels in the Commission itself—and greatly strengthen public confidence in the determination of the government to assure to railroads adequate earnings.

The other proposal, which aims directly to bolster up railroad credit, is that of a government guarantee of a minimum return upon railroad investment. This suggestion has usually been associated with one for the taking by the government of excess earnings over a certain maximum, to be used for the benefit of the transportation service as a whole. In this form, the proposal has met with determined opposition from railroad executives, first on the economic ground that all incentive to efficiency will thereby be removed, and second on the legal ground that such a commandeering of earnings resulting from rates declared reasonable by the Commission would be confiscatory and unconstitutional. Time does not permit me to enter upon the discussion of this question, which after all is only indirectly related to the topic of this morning. My own conviction is that a government guarantee will be found to be necessary if railroad credit is ever to be restored to a healthy status, and I see no reason why such a guarantee cannot be made sufficiently elastic to prevent the destruction of private initiative.

In conclusion, I would merely add that if adequate earnings are assured to the railroad corporations, the public has a right to expect that the transportation business of the country will be so conducted that the public interest will be the predominant influence in the determination of any question of policy, and will not be held to be merely coequal with that of the private capital employed. We have reached the point in our political and economic development where we are ready to demand that a public service be operated exclusively in the interest of the public, and private capital must be made to appreciate clearly that it is investing in this public business under this restriction. After two years of government operation, private operation is again to be



placed on trial. Nothing short of a whole-hearted acceptance of the principles of public service and their every-day application to railroad administration and operation will save this country from the doubtful experiment of government ownership.

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